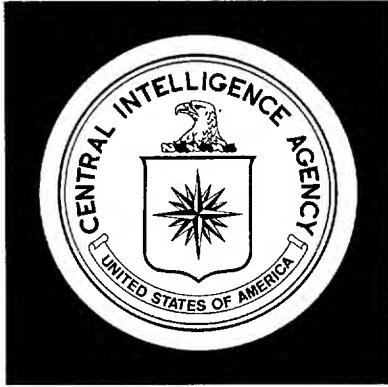


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Central Intelligence Bulletin

Top Secret

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March 1, 1974

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Central Intelligence Bulletin

CONTENTS

ETHIOPIA: Troops in sympathy with dissidents in Asmara control major installations in Addis Ababa. (Page 1)

25X1

ITALY: La Malfa's resignation not necessarily death-blow to Rumor's coalition. (Page 6)

CAMBODIA: More signs that Khmer Communists may be unable to mount major offensive in Phnom Penh area in near future. (Page 9)

25X1

ARGENTINA: Supporter of Peron sworn in as governor of Cordoba Province. (Page 14)

25X1

JAPAN: Exposures by leftists of corruption in business community adds to Tanaka's political problems. (Page 16)

JAPAN: Official holdings of foreign exchange rose in February. (Page 17)

FOR THE RECORD: (Page 19)

25X1

*ETHIOPIA: Troops in sympathy with the dissident soldiers in Asmara are now firmly in control of major installations in Addis Ababa. They are actively seeking out and arresting ministers and other key officials of the dismissed government, although still proclaiming loyalty to the Emperor. Some former ministers and lower ranking officials have already been apprehended. Troops in Asmara are also demanding the prosecution of former officials for alleged corruption.

The civilian and military appointments announced yesterday represent a determined effort by Emperor Haile Selassie to reach some accommodation with dissident troops, but it is not yet certain that the new appointees will be acceptable. The Emperor also announced a hike in military pay and allowances, but the increase falls short of the dissidents' demands.

The new officials are likely to be more concerned with reform than their predecessors. Endalkatchew Makonnen, the new prime minister, is considered a conservative in Ethiopian terms, but he is considerably younger and probably more politically sensitive than former prime minister Aklilu and more aware of the need for significant change. Lieutenant General Abiye, the new defense minister, is a progressive who has urged swifter implementation of reforms. Although loyal to Haile Selassie, he has in the past reportedly tried to impress the Emperor with the need to prepare Ethiopia for a less personal form of government.

Endalkatchew may be too closely identified with the conservative hierarchy and the discredited former cabinet--in which he held a portfolio--to win the dissidents' confidence. He also has a reputation for being corrupt. Junior and middle-level officers, whose demands are more politically oriented than those of the enlisted men, are apparently beginning to move to the forefront of the revolt. The officers are still willing to accept a civilian government, but they are determined to secure the appointment of ministers committed to progressive reforms. The officers

Mar 1, 1974

Central Intelligence Bulletin

1

will probably attempt to establish greater unity among themselves and seek support from discontented civilians.

The officers and enlisted men, and probably most of the civilians, remain loyal to the Emperor, but they would prefer that the daily administration of the government be placed in the hands of officials chosen more for their competence than for their royal favor and service.

*Because of the shortage of time for preparation of this item, the analytic interpretation presented here has been produced by the Central Intelligence Agency without the participation of the Bureau of Intelligence and Research, Department of State.

Mar 1, 1974

Central Intelligence Bulletin

2

Next 2 Page(s) In Document Exempt

*ITALY: Ugo La Malfa's resignation from his dual posts of treasury minister and leader of the Republican Party will not necessarily topple Prime Minister Rumor's center-left government.

Even without the support of the Republicans--the smallest party in the coalition--the three remaining parties would have solid majorities in both houses of parliament. The Republican Party's central committee will meet today and could decide to stay in the government under a new party leader. An additional possibility is that the party may decide, as it did in 1971, to withdraw from the government but to continue supporting it in parliament.

La Malfa's resignation came after a bitter dispute with the Socialists over the terms of a \$1.2-billion loan he had negotiated with the International Monetary Fund. La Malfa--a persistent advocate of budgetary austerity--has long thwarted Socialist desires for immediate action on costly social and economic reforms. The Socialists were under heavy grass-roots pressure to produce such programs, and they feared that La Malfa had outflanked them by negotiating a loan whose terms would compel the government to adopt his policies.

The Socialists grudgingly accepted the terms of the loan yesterday, but insisted on a public statement that they had been forced to comply in the interest of coalition unity. Such a statement would have put the onus for any resulting economic troubles on La Malfa, who preferred to resign rather than accept this responsibility.

La Malfa's decision will strain the cohesion of Rumor's government. There has been, however, widespread sentiment among Italy's political leaders that they should not aggravate the country's economic troubles with a political crisis. Even organized labor has emphasized that its nation-wide general

Mar 1, 1974

Central Intelligence Bulletin

6

strike this week was not intended to bring the government down. The powerful Communist Party, moreover, has not yet altered its "soft" opposition policy toward Rumor.

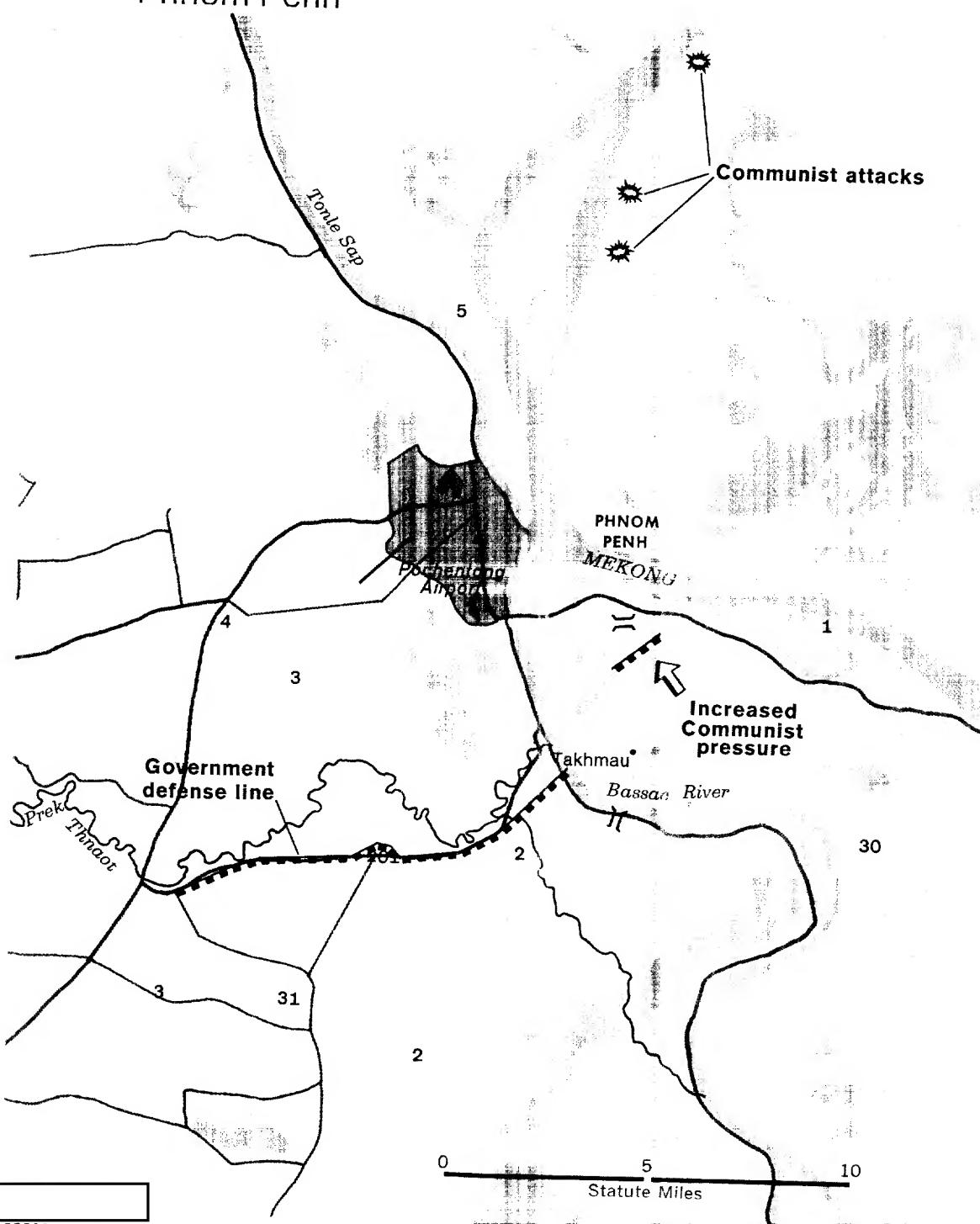
Although Rumor is exasperated with bickering among the parties, he will probably try to keep the center-left coalition together, with or without the Republicans. Most politicians would like to see him succeed since parliamentary arithmetic does not permit a workable or democratic alternative to the center-left alignment.

If the center-left coalition comes apart, the Christian Democrats may decide to set up a one-party caretaker government to preside during a divisive national referendum on legalized divorce, which is expected sometime this spring. This would not be a popular decision, however, and a move in this direction could signal the beginning of prolonged political turmoil.

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Phnom Penh



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CAMBODIA: There are increasing signs that the Khmer Communists may be unable to mount another major offensive in the Phnom Penh area in the near future.

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[REDACTED] Insurgent units have mounted light attacks in an area between Route 1 and the Bassac River southeast of the capital and have slightly increased pressure against government positions on the east bank of the Mekong River just upstream from Phnom Penh. No significant attacks have materialized on other fronts.

For the most part, government forces have been reacting to Communist initiatives, but they have been getting the best of the fighting since mid-January. Army units northwest of the capital have now succeeded in eliminating the Communist salient that in early January extended to within three miles of Pochentong airport. South of the city, government troops have forced the Communists to withdraw their artillery and have retaken most of their previous holdings south of the Prek Thnaot River.

It may take the Communists some time to recoup their manpower losses. [REDACTED]

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[REDACTED] Communist casualties probably have not been so extensive south of Phnom Penh, but many units in this sector saw heavy combat elsewhere last fall. Communist offensive plans may also be affected by the need to stockpile new munitions near the front lines.

Even if these problems are resolved, the Communists will still have to overcome deficiencies in tactical coordination. In addition, the Communists may soon have to divert some of their forces concentrated in the Phnom Penh region to certain areas of the countryside, where they recently have been losing territory and population to increasingly aggressive local government forces. [REDACTED]

25X1

Mar 1, 1974

Central Intelligence Bulletin

9

25X1

Next 3 Page(s) In Document Exempt

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*ARGENTINA: A local supporter of President Peron was sworn in as governor of Cordoba Province last night. The former governor and other high provincial officials remain prisoners of the police who rebelled against the leftist provincial government earlier this week.

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[REDACTED]

[REDACTED]

President Peron may be waiting for left-wing activists to start trouble and give him a pretext for direct intervention in the province. He would like to eliminate leftist influence in Cordoba, while maintaining the impression that his hand was forced on the issue.

Although sporadic gunfire was reported between conservative and leftist Peronists in the city, there has as yet been no major outbreak of violence. Right-wing groups are roaming the streets in search of leftists. Some leftist labor leaders, including Trotskyite Agustin Tosco, are calling for demonstrations in support of the detained provincial officials.

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[Redacted]

JAPAN: Successful leftist efforts in the Diet to expose shady practices of the business community are adding to the troubles of the Tanaka administration. During the past week, the Communist Party has dominated Lower House Budget Committee hearings with well-documented revelations of hoarding and profiteering by several large Japanese corporations.

The Communist initiative has forced Tanaka into a difficult situation. He will be tempted to discipline the offending corporations to minimize public association of his government with their shady dealings. At the same time, he must avoid serious damage to the conservatives' close linkage to the Japanese business community, which provides the Liberal Democrats virtually all their political operating funds.

[Redacted]

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Mar 1, 1974

Central Intelligence Bulletin

16

25X1

JAPAN: Official holdings of foreign exchange rose \$300 million in February to \$11.9 billion--the first increase in a year. During the previous 11 months reserves had declined by about \$7.5 billion.

The increase in February occurred primarily because \$200-\$300 million was shifted from unofficial accounts--dollar deposits in commercial banks--into official accounts. The Bank of Japan has been reducing these nonofficial holdings since October and they now total about \$9 billion. By continuing to reduce these holdings, Japan can absorb balance-of-payments deficits for several months without suffering a corresponding decline in official reserves. The increase in official reserves occurred in February despite what was probably a large balance-of-payments deficit.

25X1

Mar 1, 1974

Central Intelligence Bulletin

17

25X1

25X1

Approved For Release 2004/04/12 : CIA-RDP79T00975A026200080001-2

Approved For Release 2004/04/12 : CIA-RDP79T00975A026200080001-2

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FOR THE RECORD

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Law of War Conference: The Conference of the Law of War meeting in Geneva yesterday voted 38-37 with 33 abstentions against seating representatives from the Provisional Revolutionary Government (PRG), the political arm of the South Vietnamese Communists. Hanoi did not vote because the North Vietnamese delegation walked out of the conference on the day preceding the vote, possibly to protest US and South Vietnamese lobbying efforts against the PRG. The question of representation for Prince Sihanouk's "government" will be referred to a committee for disposition. [redacted]

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Africa: The scheduled meeting of the OAU Council of Ministers in Addis Ababa adjourned shortly after it opened on February 27 because of the mutiny by units of the Ethiopian armed forces. A budget was adopted, but other pressing matters on the agenda were postponed until a later session. [redacted]

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Mar 1, 1974

Central Intelligence Bulletin

19

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Approved For Release 2004/04/12 : CIA-RDP79T00975A026200080001-2

Approved For Release 2004/04/12 : CIA-RDP79T00975A026200080001-2

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